

## Message Text

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 3015

INFO AMEMBASSY ASUNCION

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E.O. 11652: N/A

TAGS: ECOM, AR

SUBJECT: SIXTY DAYS OF NEW ECONOMIC APPROACH IN ARGENTINA

1. SUMMARY. NEW GOA HAS TAKEN MANY OF STEPS REQUIRED CARRY OUT  
NEW GOVERNMENT'S IMMEDIATE ECONOMIC PROGRAM AS ANNOUNCED FOLLOWING  
TRANSFER OF POWER MAY 25 BUT MANY STILL REMAIN TO BE TAKEN AND  
PACE OF ACTIVITIES IN GOVERNMENT SEEMS ALLOWED DUE RECENT POLITICAL  
CHANGES. NEW MEASURES, AND DEPARTURES FROM PAST, HAVE CREATED AURA  
OF CONFUSION IN BUSINESS COMMUNITY AND AMONG PUBLIC AS FURTHER  
DEFINITIONS AWAITED. TO SOME EXTENT CONFUSION LEADING TO  
RETRACTION IN SALES AND PRODUCTION ACTIVITIES. NEW PRIVATE INVEST-  
MENT APPEARS TO BE NEAR STANDSTILL. GOA SEEKING GRAPPLE WITH MASSIVE  
BUDGET DEFICIT AND RELATED MONETARY PROBLEMS AND TO DEFINE PUBLIC  
SECTOR INVESTMENT PRIORITY POLICIES. MAJOR NEW LEGISLATION IN  
ECONOMIC FIELD, INCLUDING SEVERAL MEASURES AFFECTING  
FOREIGN INVESTMENTS, STILL UNDER PRELIMINARY COMMITTEE DISCUSSION  
AFTER ONE MONTH IN CONGRESS. PROSPECTS FOR ACHIEVING EARLY 1973  
EXPORT GOALS RECEDING THOUGH B/P STILL LIKELY TO BE IN SURPLUS.

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ABNORMALLY SEVERE ARGENTINE WINTER SHOWING CURRENT FUEL SUPPLIES  
INADEQUATE AND DIMMING PROSPECTS FOR NORMAL WINTER PLANTING OF  
GRAINS. PROSPECTS FOR EVENTUAL SUCCESS FOR GOVERNMENT CONTROL AND  
PRICE/INCOMES POLICY UNCLEAR. MEDIUM AND LONG-TERM POLICIES URGENTLY

NEEDED BUT STILL TO BE EVOLVED.

2. PRICE INCOMES POLICY. AS WE HAVE REPORTED, NEW GOA PROMPTLY DECREED MODERATE (FLAT INCREASE 200 PESOS PER MONTH PLUS ADDITIONAL FAMILY BENEFITS) WAGE INCREASE EFFECTIVE JUNE 1. THIS GOA MEASURE FINALLY APPROVED BY CONGRESS JULY 6 AND IS IN EFFECT. GOA ALSO MOVED PROMPTLY IN EARLY JUNE TO ROLL BACK PRICE OF MEAT. IN FOLLOWING WEEKS GOA MOVED TO EXPAND PRICE CONTROLS TO COVER FIRST 20 AND LATER 86 CONSUMER ITEMS WITH GREATEST WEIGHT IN COL BASKET. IN EARLY JULY GOA ORDERED 57 INDUSTRIAL LEADERS PRODUCING MATERIALS, PARTS AND COMPONENTS FOR FOOD ELABORATION TO ROLLOUT PRICES TO JANUARY 1 LEVEL. UNDER PRESSURE 100 FIRMS OF UNION INDUSTRIAL OFFERED REDUCE THEIR PRICES 7-14 PERCENT). ON JULY 22 LARGE ASSOCIATION OF CLOTHING DEALERS WAS TO IMPLEMENT VOLUNTARY 10 PERCENT PRICE ROLLOUT. LARGEST STEEL PRODUCER (GOA OWNED SOMISA) HAS ALSO ACCEPTED 6 PERCENT PRICE ROLLOUT. GOA CONTINUES TO EXAMINE OTHER CATEGORIES OF GOODS AND APPEARS READY TO IMPOSE ADDITIONAL CONTROLS WHEN DEEMED IMPORTANT.

3. THROUGH ABOVE MEASURES GOA HAS FULFILLED IN SOME DEGREE CAMPAIGN PROMISE TO INCREASE REAL WAGES OF WORKERS AND BRING LABOR, INDUSTRY AND GOVERNMENT WITHIN HIGHLY CONTROLLED PROGRAM INTENDED TO HALVE RECENT RATES OF INFLATION. TO DATE MEASURES HAVE BEEN EFFECTIVE, THOUGH EARLY ENTHUSIASM OF PERONIST YOUTH TO CONSTITUTE THEMSELVES A PRICE ENFORCEMENT GROUP APPEARS TO HAVE WANED AND ENFORCEMENT NOW APPARENTLY CARRIED OUT BY INSPECTION FORCE OF MINCOM. THERE IS NO WIDESPREAD IMPRESSION THAT CONTROLS ARE BEING EVADED OR THAT BLACK MARKETS GROWING IMPORTANT. WE ARE UNAWARE OF ANY ACUTE SHORTAGES OF CONSUMER ITEMS EXCEPT FUEL.

4. PROBLEMS APPEAR TO BE BUILDING FOR FUTURE, HOWEVER, AS IMPACT OF NEW PRICES AND PROSPECTS FOR EXTENSION OF CONTROLS TO AREAS STILL UNCOVERED AFFECT BUYERS' ATTITUDES. ANTICIPATING FURTHER PRICE FREEZES OR ROLLOUTS, PROSPECTIVE BUYERS APPARENTLY HOLDING BACK ON PURCHASE OF DURABLE CONSUMER GOODS AND MANY MINOR PURCHASES. MERCHANTS ARE REVIEWING PRESENT INVENTORIES AND PAST INVENTORY POLICIES WITH SOME EXPECTATION FORMATION MAY BE REDUCED. MANY LIMITED OFFICIAL USE  
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ARE STATED TO BE CUTTING BACK ORDERS TO WHOLESALERS AND PRODUCERS. REPORTEDLY, MANY ARE ALSO FAILING TO MEET OBLIGATIONS FOR PAST PURCHASES UNTIL THEY NEED MORE SUPPLIES. CONFUSION IN BANKING CIRCLES OVER IMPACT OF IMPENDING NEW MONETARY CONTROL MEASURES APPEARS

TO BE SLOWING EXTENSION OF CREDIT AND COMPLICATING MERCHANTS PROBLEMS.

5. GOA HAS FELT INCREASE IN REAL WAGES AMONG LARGEST BUT LOWEST PAID GROUPS (THOSE NOT TOUCHED BY NEW EMERGENCY TAXES DECREED IN JUNE) SHOULD BOLSTER VOLUME OF SALES AND PROVE STIMULANT TO PRODUCTION. EXCEPT IN CASE OF MEAT AND SOME FOODS, THIS APPEARS NOT TO BE HAPPENING YET. FEARS ARE SPREADING THAT THERE MAY BE

A MILD RECESSION WHICH, THOUGH TEMPORARY, COULD ADVERSELY AFFECT EMPLOYEMENT. THEREFORE ALTHOUGH BEST AVAILABLE INDICES INDICATE COL FELL BY NEARY 3.0 PERCENT IN JUNE AND OVERALL WHOLESALE PRICE INDEX DECLINED BY 1.5 PERCENT, ELAPSED TIME SINCE MEASURES ADOPTED HAS BEEN TOO SHORT TO ALLOW GOOD ASSESSMENT OF LIKELY FINAL RESULTS AND PRIVATE SECTOR BUSINESS GROUPS SHOW EVIDENCE OF CONFUSION CONCERNING PROSPECTS FOR NEAR FUTURE.

6. ALTHOUGH GOVERNMENT SPOKESMAN PUBLICLY PROCLAIM CONFIDENCE THAT ANTI-INFLATION SHOCK TREATMENT CERTAIN TO GIVE GOOD RESULTS, GOA HAS ANNOUNCED MAJOR PUBLICLY FINANCED HOUSING CONSTRUCTION PROGRAM TO INCREASE EMPLOYMENT AND BOLSTER DEMAND. WHILE ORIGINAL GOA ANNOUNCEMENT WAS FOR HALF MILLION HOUSING UNITS TO BE COMPLETED IN TWO YEARS, SOME GOA OFFICIALS NOW PUBLICLY ADMITTING TIME TARGET IS ACTUALLY FOUR YEARS AND THAT SEVERAL MONTHS WILL BE REQUIRED FOR PLANNING, ORGANIZATION AND ARRANGEMENT OF FINANCING NECESSARY TO PUT PROGRAM IN HIGH GEAR.

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7. BUDGET PROBLEMS. IN MAY, OUTGOING GOVERNMENT OFFICIALS ESTIMATED 1973 BUDGET DEFICIT AT ABOUT 13 MILLION NEW PESOS (ROUGHLY 1.3 MILLION

DOLLARS). THEIR ALLOWANCE FOR INFLATION DURING YEAR WAS NOT STATED AND THE ESTIMATE PRESUMABLY CONTAINED NO ALLOWANCE FOR FUTURE GOVERNMENT WAGE INCREASES. IN LATE JUNE AS NEW GOA REVIEWED BUDGET PROSPECTS FOR NATIONAL GOVERNMENT, GOVERNMENT ENTERPRISES AND

PROVINCIAL GOVERNMENTS, MICECOM DOUBLED THE BUDGET DEFICIT ESTIMATE. CABINET CONTINUES TO MEET AT LEAST WEEKLY IN ATTEMPTS TO REORDER PRIORITIES, DECIDE UPON TREASURY ASSISTANCE TO OFFICIAL ENTERPRISES AND PROVINCES, SET PUBLIC SECTOR INVESTMENT PRIORITIES AND IDENTIFY POSSIBLE NEW SOURCES FOR ADDITIONAL TREASURY INCOME. GOA SPOKESMAN HAVE BEEN SILENT CONCERNING RESULTS. APPARENTLY NOT MANY DECISIONS HAVE BEEN REACHED ALTHOUGH ON JULY 23 IT WAS REPORTED THAT SUBSTANTIAL ASSISTANCE WILL BE PROVIDED GOVERNMENT ENTERPRISES SO THAT INVESTMENT PROJECTS UNDERWAY WILL NOT REMAIN HALTED FOR LACK OF FUNDS. AT SAME TIME, OUR CONTACTS WITH GOVERNMENT SUPPLIERS LIMITED OFFICIAL USE  
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AND CONTRACTORS INDICATE TREASURY LAGGING BADLY IN MAKING PAYMENTS DESPITE ENORMOUS RECOURSE TO CENTRAL BANK FINANCING THROUGH MID JULY. INFORMED PRESS AND OTHER SOURCES CONTINUE POINT OUT DANGERS OF CONTINUED HIGH LEVEL BUDGET DEFICIT FOR GOA PRICE/INCOMES POLICY BUT GOA STILL APPEARS UNABLE REACH DECISIONS.

8. MONETARY SECTOR. HIGH POSITIVE TRADE BALANCE FIRST HALF 1973 HAS TENDED ADD TO HIGH LIQUIDITY PROBLEM CREATED BY CENTRAL BANK FINANCING OF TREASURY DEFICIT. GOA SEEKING CONTROL SITUATION THROUGH RAISING RESERVE REQUIREMENTS OF BANKS AND PRESSURING BANKS INTO PURCHASES OF TREASURY BONDS. MODERATE SUCCESS WHICH NORMALLY COULD BE EXPECTED FROM SUCH MEASURES IS TEMPORARILY BEING INCREASED BY BANKERS' UNCERTAINTY OVER THEIR NEAR-TERM COURSE OF ACTION IN THE FACE OF NEW CREDIT REGULATIONS AND IMPENDING LEGISLATION WHICH WOULD NATIONALIZE ALL BANK DEPOSITS. SEVERAL BANKS FIND THEY HAVE INCREASING LIQUIDITY DESPITE INCREASES IN RESERVES. OVERALL EFFECT IS MUCH REDUCED VELOCITY OF MEAN-OF-PAYMENT WHICH TENDS TO BE HELPFUL IN AMELIORATING OTHERWISE SERIOUS PROBLEM WHICH COULD ARISE FROM INCREASES IN MONEY SUPPLY.

9. OTHER. ARGENTINA NOW FACING OTHER TEMPORARY PROBLEMS WHICH IMPINGE HEAVILY ON ECONOMIC SECTOR, ADDING TO CLOUDING OF PROSPECTS AND NORMAL DEVELOPMENT OF CURRENT ECONOMIC ACTIVITY. JULY WEATHER HAS BEEN COLDER AND WETTER BY FAR THAN IN NORMAL WINTER. DEMAND UPON FUEL OIL, KEROSENE, LIQUID GAS, AND NATURAL GAS SUPPLIES HAS BEEN GREATER THAN USUAL, IN CONTEXT OF RELATIVELY SMALL IMPORTS AND DECLINING PRODUCTION AND STOCKS. GOA TAKING EMERGENCY STEPS, IMPORTING FINAL PRODUCTS, MODIFYING REFINERY RUNS, ESTABLISHING SPECIAL DISTRIBUTION CHANNELS FOR KEROSENE IN SEVERAL SECTION OF CITY IN ATTEMPT TO MEET MOST URGENT DEMANDS. MAJOR POWER UTILITY HAS WARNED PUBLIC CONCERNING POSSIBLE BROWNOUTS DURING NEXT TWO MONTHS.

10 US PARTIAL EMBARGO AND APPARENT IMMINENT EXPORT RATIONING OF STEEL SCRAP HAS CAUSED CONSIDERABLE ALARM IN ARGENTINA BECAUSE IT POSES REAL DANGER THAT NEWLY EXPANDED STEEL INDUSTRY WILL HAVE TO OPERATE AT REDUCED LEVELS BEFORE END OF 1973. IMPACT ON USERS OF STEEL PRODUCTS AND TERMINAL PRODUCTS SECTORS MAY ALSO ACT TO REDUCE OVERALL LEVEL ECONOMIC ACTIVITY.

11. ARGENTINA'S NOW OBVIOUS NEED TO STEP UP PACE OF CRUDE  
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PETROLEUM IMPORTS, WITH WORLD SUPPLIES SHORT AND PRICES RISING, AND TO DEPEND MORE HEAVILY ON WORLD MARKET FOR SEMI-FINISHED AND FINISHED STEEL PRODUCTS WILL PLACE UNEXPECTED BURDEN ON BALANCE OF PAYMENTS. SEVERITY OF WINTER CONDITIONS ALREADY MENTIONED, COMPLICATED BY FLOODING OF EXTENSIVE AREAS IN HIGH YIELDING GRAIN AND CATTLE ZONES CANNOT BE PRECISELY ASSESSED AS YET, BUT IT IS ALREADY CLEAR THAT SOWING OF WINTER GRAIN CROP WILL FALL SUBSTANTIALLY SHORT OF NORMAL EXPECTATIONS. GOA FAILURE PROVIDE WHAT FARMERS CONSIDER ADEQUATE SUPPORT PRICES FOR WHEAT ALSO IMPORTANT IN REDUCING EXPECTATIONS CONCERNING PROBABLE OUTPUT OF 1973/1974 WHEAT HARVEST. BALANCE OF PAYMENTS IN 1974 WILL BE ADVERSELY AFFECTED. RELATIVE FLEXIBILITY AND MANEUVERING ROOM FOR ECONOMIC POLICY OF NEW PERONIST GOVERNMENT WHICH HAS BEEN BRIEFLY AFFORDED BY GOOD EXTERNAL ACCOUNTS PROSPECTS IN 1973 MAY PROVE TO BE SHORT LIVED.

12. PACKAGE OF ECONOMIC MEASURES SENT BY NEW GOA TO CONGRESS IN SECOND HALF JUNE HAS BEEN RECEIVING INTERMITTENT CONSIDERATION BY CONGRESSIONAL COMMITTEES, NONE HAVE BEEN FULLY APPROVED. APPARENTLY, SEVERAL WILL BE MODIFIED. FORCES FROM THE LEFT AT WORK SEEKING TO MAKE NEW LAWS MORE REVOLUTIONARY. MAIN STREAM PERONISTS AND OTHER CONSERVATIVE ELEMENTS ARE REPORTED TO BE SEEKING IMPROVEMENTS, OR AT LEAST MORE PRECISENESS IN DRAFT LEGISLATION. SOME OF OUR CONGRESSIONAL SOURCES STATE THAT FIRST WEEK OF AUGUST WILL SEE CONGRESSIONAL ACTION COMPLETED ON SEVERAL BILLS. AT THE MOMENT, IT APPEARS THAT A LAW EXPROPRIATING SEVERAL FOREIGN-OWNED BANKS WILL RECEIVE APPROVAL. REPORTS THAT PERON HAD CALLED FOR SUBSTANTIAL MODIFICATION OF A NEW FOREIGN INVESTMENT LAW PATTERNED AFTER, BUT SOMEWHAT MORE RESTRICTIVE THAN THE ANDEAN INVESTMENT CODE, CANNOT BE CONFIRMED, BUT THERE SEEMS TO BE NO INCLINATION AMONG THE PERONIST MAJORITY TO STEAMROLLER THE MEASURE THROUGH CONGRESS.

13. BUSY WITH ITS EFFORTS TO IMPLEMENT NEW PRICE/INCOMES POLICY WHILE IT AWAITS CONGRESSIONAL ACTION OF ECONOMIC MEASURES AND REAPPRAISES PROSPECTS FOR THE BALANCE OF PAYMENTS INTO THE FUTURE, THE GOA SEEMS TO BE DELAYING IMPORTANT DECISIONS. STATE ENTERPRISES HAVE GENERALLY NOT RECEIVED APPROVALS FOR EVEN THEIR NEAR-TERM INVESTMENT PLANS AND APPEAR TO SHARE WITH THE PRIVATE SECTOR CONFUSION AND DOUBT OVER THE PROSPECTS FOR NORMAL DEVELOPMENT IN THE COMING MONTHS. GOA WILL NEED TO MAKE DECISIONS SOON IF IT IS TO  
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AVOID CONTRIBUTING TO A TENDENCY TOWARDS ECONOMIC STAGNATION.

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## Message Attributes

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